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Sub-Saharan Africa: Economic Problems and Prospects

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An Intelligence Assessment

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Sub-Saharan Africa: Economic Problems and Prospects [redacted] 25X1

An Intelligence Assessment

This paper was prepared by [redacted], with 25X1
contributions from [redacted] of 25X1
the Office of African and Latin American Analysis. It was coordinated with the Directorate of Operations. [redacted] 25X1

Comments and queries are welcome and may be directed to the Chief, Regional Issues Branch, ALA, [redacted] 25X1

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Sub-Saharan Africa: Economic Problems and Prospects

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Key Judgments

Information available as of 22 February 1985 was used in this report.

The prospects for sustained economic growth in Sub-Saharan Africa are highly unfavorable. In 1983, Africa's GDP fell below the 1980 level, and it continued to decline in 1984. Regional per capita income is less than its 1970 level, according to the World Bank, and we concur with the Bank's forecast of continued decline through 1995. Improvements in life expectancy and infant mortality have occurred since 1960, but child mortality in Africa is still double the average for all developing countries, and life expectancy in Africa is 10 years less than the average for LDCs.

Sub-Saharan Africa is the only region in the world in which per capita food production is declining. Climatic conditions, poor natural resources, warfare, and government policies all contribute to this ominous trend. We believe that, primarily to avoid the political unrest that might result from rising food prices, most governments will try to maintain low prices and regulations that interfere in the operation of free markets and that are, in our view, major disincentives for farmers to produce. Some countries also will continue to keep their currencies overvalued to provide cheap imported food for their politically important urban populations.

Most Sub-Saharan leaders have been unable to focus on sustained programs for economic development because of unstable political conditions. Endemic sociopolitical instability arising from deep ethnic, religious, and regional cleavages has left most regimes preoccupied with their own survival, in our judgment. We believe that African leaders build and maintain their power bases by controlling who has access to foreign exchange, resources, and contracts. As a result, policies are often formulated to favor factions that support the regime rather than for their intrinsic economic benefits.

In our view, even if governments were confident about their survival, economic problems would persist. African countries will suffer chronic shortages of foreign exchange with which to purchase imports, service debts, and pay for capital projects. Depressed prices for Africa's exports have reduced earnings at a time when its food import needs and debt service costs are growing. To conserve foreign exchange for basic necessities, we believe that many governments will have to cut imports vital to industries and reduce development spending. We believe that these drastic reductions will starve production of vital resources, lead to further decay, and cause deep and long-term injury to economies already in a precarious state.

In our judgment, the economic outlook is dismal. The potential exists for a long-term fall in the average real prices of some of Africa's primary export commodities because technological advances in the rest of the world make many of these goods less useful. Should the global environment turn negative, it would have a deep and long-lasting impact because of the region's lack of economic, political, and social resilience. Furthermore, we believe that, as other regions move rapidly to acquire increasingly advanced technology, the gap between Africa, already the world's poorest region, and the rest of the world will continue to grow.

Africa's deteriorating economic situation will create greater demand on the United States and its industrial-country allies for food assistance, concessional loans, and aid programs. Because of the decline in commercial loans and private investment, we believe that the multilateral institutions will also play an ever larger role. The United States and other major supporters of these institutions will come under growing pressure for greater contributions.

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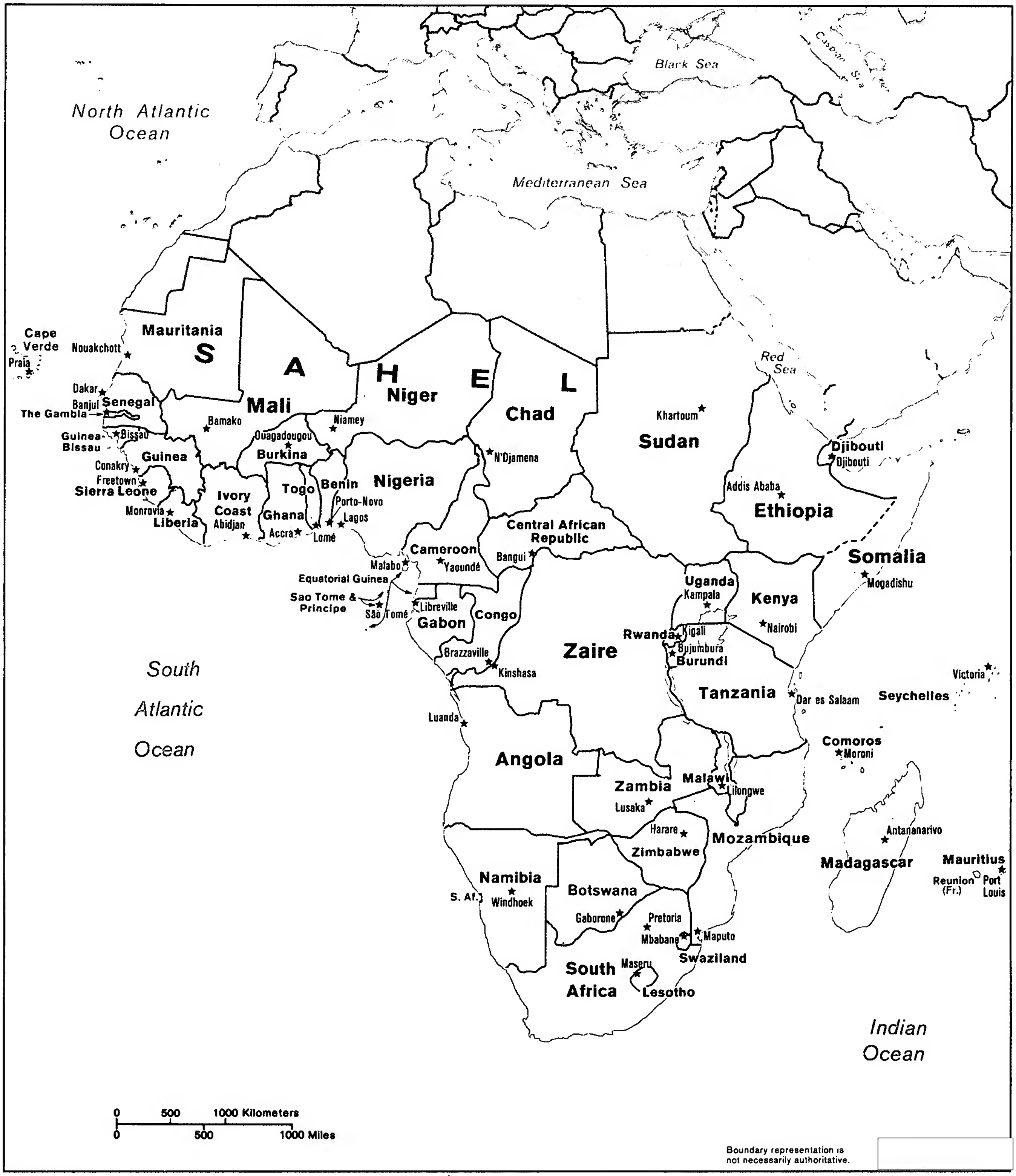

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Sub-Saharan Africa: Economic Problems and Prospects [redacted] 25X1

The Economic Crisis—A Legacy of Failure

Sub-Saharan Africa's grim economic situation today reflects the failure of over two decades of development effort by African governments, donor countries, and international organizations. A low level of economic growth—averaging less than 1 percent per year in 1982-84—has combined with the world's highest rate of population increase—3.1 percent— to create conditions of declining per capita incomes and deteriorating standards of living (figure 2):

- By 1983, Africa's GDP had shrunk to below the 1980 level, and it continued to fall in 1984. Per capita income, which in 1983 was estimated at 4 percent less than in 1970, should continue to fall through 1995 even in a best case situation, according to projections by the World Bank.

- Social indicators are equally discouraging. Child mortality in Africa, for example, is double the average for all developing countries, according to UN data. Twenty percent of Africa's population eats less than the minimum needed to sustain good health, according to the Food and Agricultural Organization, and this is the only region in the world in which per capita food production is falling and where nutrition has actually worsened over the past 10 years (see figure 3). [redacted] 25X1

Sub-Saharan Africa's lack of success relative to other regions in adjusting to such external shocks as the runup in oil prices in the 1970s and the global recession in the 1980s results from poor performance on export expansion and restrictive trade policies, according to international economists. African countries are particularly vulnerable to fluctuating prices for their commodities because they export mainly raw materials and, even during periods of higher export earnings such as the late 1970s, have maintained the world's lowest ratio of foreign exchange reserves to imports, according to IMF data. Oil and non-oil-exporting African countries alike experienced a boom in foreign exchange earnings when prices for their commodities rose during 1973-80, but, rather than building reserves against an eventual drop in prices, they chose to spend their windfalls on such ambitious projects as prestige airports and on expanding the size and role of governments. The continent is littered with projects that are incomplete or deteriorating for lack of sufficient funds for maintenance, and that, in our view, will never pay for themselves. Examples range from the containerized port of Onne in Nigeria, 65 percent complete and now abandoned, to the Kisumu gasohol plant in Kenya, which, even if completed, will have output that is uneconomically low. [redacted] 25X1

When the terms of trade for oil importers began to deteriorate sharply in 1980, we believe that African governments failed to reduce imports quickly enough, drew down on their foreign exchange reserves, and borrowed more from abroad. The beginning of the recession in industrialized countries resulted in a rapid drop in demand for African products and, according to export price statistics, an average price decline of 28 percent during 1981-82. By the end of 1983, reserves for the region as a whole covered only one month's worth of imports and Africa had the highest debt relative to GDP in the world. From 1979 to 1984, 28 Sub-Saharan African countries resorted to borrowing from the IMF, and, in 1982, 25 percent of the Fund's total lending went to Africa. [redacted] 25X1

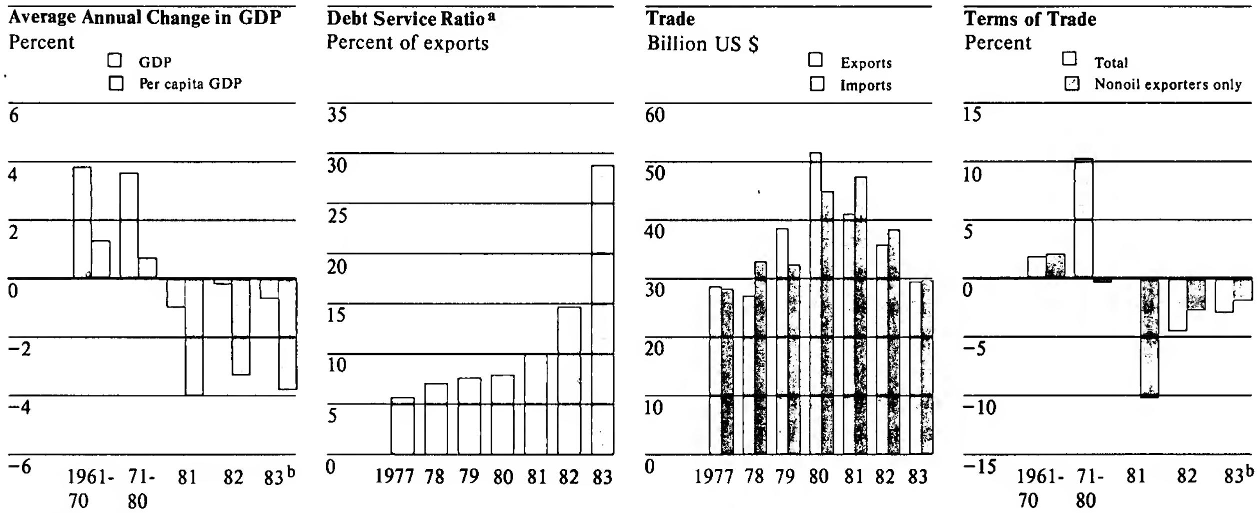
Endemic Problems and Weaknesses

Chronic physical, demographic, and ideological-political factors account for much of Africa's poor economic performance in the past, and, in our judgment, will continue to act as obstacles to growth and development. For example, the myriad deficiencies—in food,

[1] This discussion includes countries south of the Sahara except South Africa. In the interest of cross-country comparability, all data cited come from World Bank sources unless otherwise indicated. For an examination of specific regions, see the appendixes. [redacted] 25X1

Figure 2
Sub-Saharan Africa: Economic Indicators, 1961-83

Note scale changes



[a] Ratio of total debt service (medium and long term) to exports of goods.
[b] Estimated.

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physical plant, education, and skills—and unrealistic government policies combine with the extremely small size of African national markets to limit the return on most investment. Development efforts in Africa, therefore, tend to move slowly and often fail.

Dearth of Physical and Human Resources
Africa's poor infrastructure—both physical and human—is a fundamental impediment to economic growth. Transport, communications, and plant facilities are generally inadequate for modern economic activity. In some countries, major development projects such as ports, railways, and plant sites are deteriorating because of poor maintenance complicated by geography, climate, shortage of skilled labor, and financial constraints. The World Bank reports, for example, that minimal maintenance costs for African roads are three times as high a proportion of GNP as in other developing countries.

Human development is an even more troublesome obstacle to growth because high rates of population increase combined with little or no economic growth guarantee that the magnitude of the problem constantly increases (see figure 4):

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- The rapid rate of population increase strains the resources of African economies in merely providing the very basics of life: housing, food, water, and health care.

- The general health of the population appears to be declining because of poor nutrition. Although improved since independence, life expectancy still averages less than 50 years, and infant mortality is the highest in the world, according to United Nations data.

- Africa trails the rest of the world in the rate of adult literacy; in at least 20 countries, fewer than half the adults are literate. Generally, the populations are not able to manage a modern, technology-based economy.

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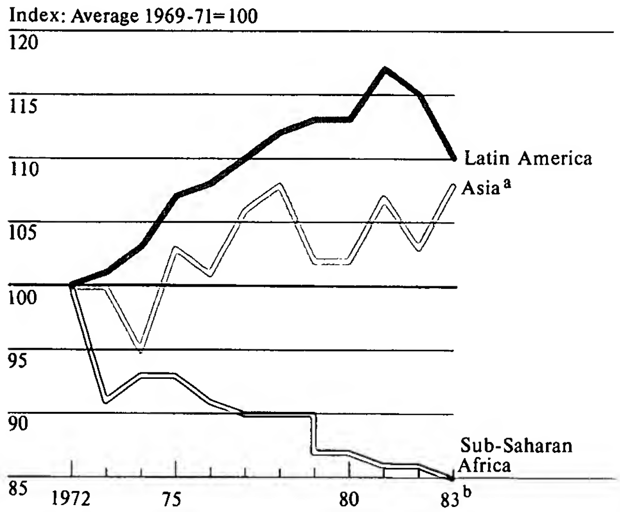
Figure 3
Food Production, Per Capita, 1972-83



[a] Asia excludes Japan and China.
[b] Estimated.

[redacted]

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- Severe shortages exist of skilled managers and technical experts to run the governments and industries efficiently, according to [redacted] academic sources. [redacted]

Political Instability

Sociopolitical and ideological factors have persisted as major constraints to economic stabilization since the 1960s. Deep ethnic, regional, and religious cleavages divide the populations of most African countries, and these regimes are preoccupied with keeping their own dominant elites in power. As a result, most regimes have avoided the implementation of long-range economic planning in favor of satisfying the immediate needs of their supporters. [redacted]

In countries with economies run according to socialist principles (such as Angola, Mozambique, and Ethiopia), ideology tends to dictate economic policy. Even when policies prove counterproductive economically, reforms that conflict with ideology are unlikely to be implemented unless the ruling group feels politically secure. [redacted] 25X1

Opposition to African regimes can take a variety of forms ranging from systematic circumvention of government regulations to armed rebellion. Combating insurgents and other civil disorders saps state treasuries. In addition, warfare disrupts the production and flow of goods and creates sometimes huge refugee populations that often remain unproductive for years. According to academic studies, for example, during the 1970s the number of refugees who crossed national borders in Africa rose from 750,000 to 5 million and constituted half the total refugees in the world. [redacted] 25X1

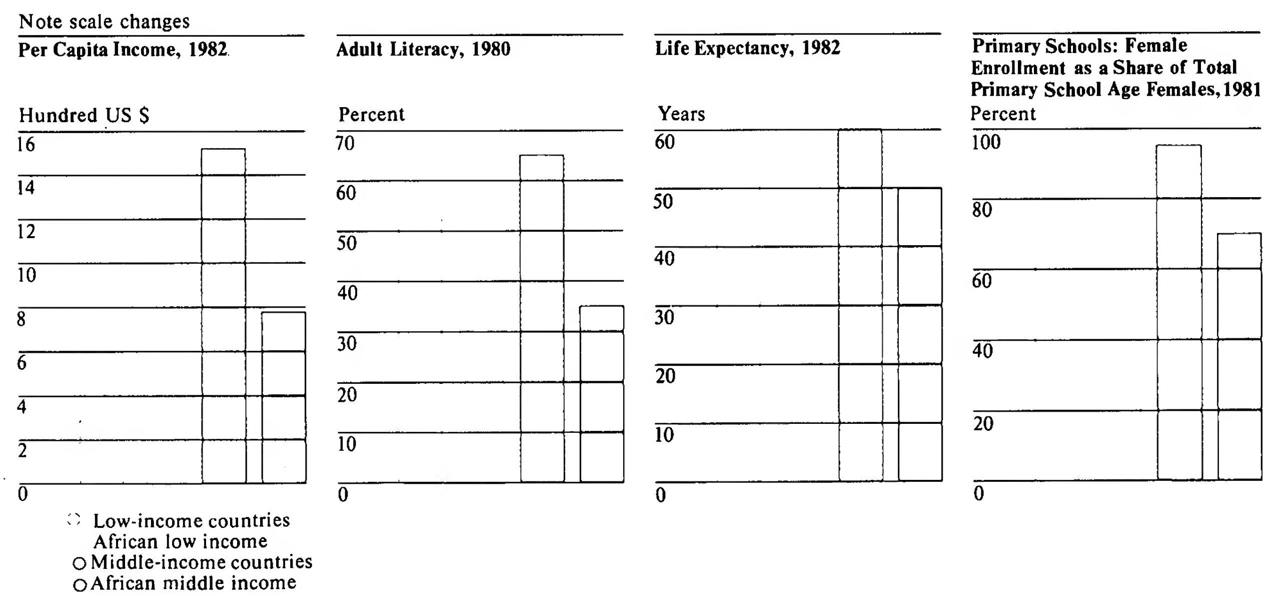
Entrepreneurial instincts, when inhibited by government regulations, simply ignore many government controls. Informal economies are now thriving in places where the official modern sector is in disarray 25X1 (Nigeria, Tanzania, Sierra Leone, and Zaire, for example). People trade, smuggle, provide services, and devise their own systems of currency exchange—all outside the formal sector. In our view, based on largely diplomatic reporting, government control over economic activity is on the wane in many parts of Africa, and the future base of revenue from customs and taxes is threatened. According to a recent academic study, for example, it is estimated that one- 25X1 third of Sierra Leone's rice production is smuggled 25X1 abroad and that if smuggling were halted, Sierra Leone would be self-sufficient in rice. [redacted] 25X1

Counterproductive Economic Policies

The extent of government intrusion into the formal sector of African economies is pervasive partly because it is used by leaders as a means of controlling their political competition. Public employment, for example, is commonly used to dispense patronage; African governments employ an average of 30 percent of the nonagricultural, formal labor force and over 25X1 50 percent in such countries as Tanzania, Zambia, Liberia, and Ghana. [redacted] 25X1

In our judgment, African leaders build and maintain their power bases by deciding who has access to

Figure 4
Sub-Saharan Africa: Socioeconomic Indicators, 1980-82



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foreign exchange, investment, resources, licenses, and contracts:

- Ivory Coast built six sugar processing plants for political reasons when sugar prices were high to provide the relatively poor north with employment; sugar prices collapsed shortly after work was begun.

- In Nigeria, revenues were allocated automatically to governors of the 19 states for their use, with little accountability or control.

- The $2 billion Inga Shaba dams project with its 1,770-kilometer transmission line in Zaire was designed to strengthen the dependence of the copper-rich, but potentially rebellious, Shaba province on other parts of the country. [redacted]

Production by state-owned industries is typically inefficient because they are often managed poorly, and sometimes corruptly, and often have goals other than profitability. Academic [redacted] sources consistently show that they usually operate in deficit, receive huge government subsidies, and are deeply in debt. For example, World Bank studies show that, except for those that handle export sales, public enterprises are generally serious fiscal burdens, and management objectives are usually political rather than economic. Nevertheless, they have proved difficult to dismantle in part because they provide jobs for political allies and because there still is a widespread distrust of the free market and a deep sense, even among younger leaders, that colonialism and capitalism are somehow linked. [redacted] 25X1

State-owned enterprises in Africa contribute as much as 38 percent to GDP (in Ghana and Zambia), compared with the 10 percent average for developing countries as a whole. In Tanzania, government enterprises account for over 50 percent of manufacturing and commerce. [redacted] 25X1

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Regimes try to stifle impulses toward a free market economy in a number of other ways. Controls on wages, prices, and the sale and marketing of goods abound. Restrictions are widely used to reduce or prohibit certain imports, while overvalued currencies in some countries help to provide cheap imported food for urban dwellers, whose political impact is greatest. Import restrictions are especially pervasive in such countries as Nigeria, Kenya, and Tanzania, according to US embassy reporting. [redacted]

At the urging of the World Bank, the IMF, and other official lenders, a number of countries have agreed to begin to institute basic reforms in economic policy (Ivory Coast, Ghana, Mali, and Zambia, for example). Policies that are being targeted are those that interfere in the operation of the free market, particularly in agriculture, or that protect domestic industry from competition. In addition, governments are being advised to begin the privatization of state firms. While the long-term impact of such policy corrections is advantageous, the immediate effect is that the loss of jobs and rising prices, particularly for food, resulting from such measures would have a severe impact, especially on urban populations. [redacted]

Many African leaders publicly acknowledge that reforms are necessary but delay implementation because they regard such changes as politically too risky or as ideologically undesirable. We believe, however, that they also are striving to preserve the living standard of the administrative class from which they draw much of their support and are determined to retain their power by rewarding this and other key groups with employment and favors. Although outsiders will undoubtedly continue to urge more sweeping reform, we believe that the leaders of most African countries—no matter how convinced of the wisdom of the proposals—will be severely constrained from implementing them by fear of political reprisals. For those countries that do persevere in such reforms, which in most cases will be painful and unpopular, economic benefits will not emerge quickly. [redacted]

Food Shortages

Africa's diminishing capacity to feed itself is perhaps the most alarming manifestation of the fusion of poverty and politics (see figure 5). The declining rate of per capita food production can be attributed to a number of factors, none of which is open to easy solutions. Drought, poor agricultural resources, warfare, and government policies all play a part:

- The region is subject to periodic droughts and cyclical food shortages. Each subsequent drought is likely to have worse effects because each food shortage forces farmers to expand cleared areas for planting and grazing, which adversely affects evaporation, rainfall, and erosion. 25X1

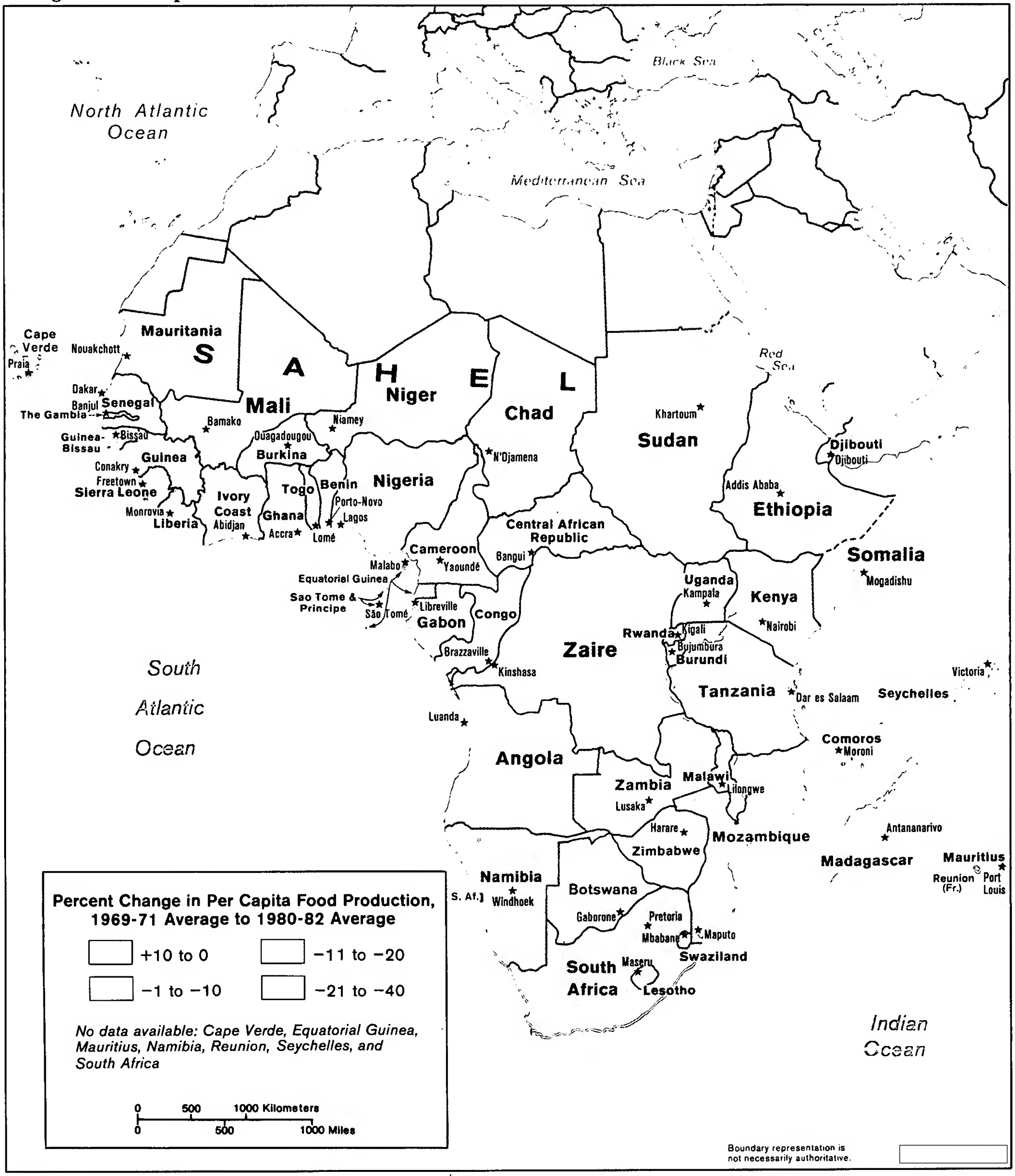
- The Food and Agricultural Organization (FAO) has identified 21 countries that have chronic food shortages. Although the region generally has the potential to increase production significantly, there are 14 countries—containing half the population of Sub-Saharan Africa—that did not have enough productive land to support their populations as of 1975 at the present level of technology.

- The end of the drought will not solve the food production problem. Per capita grain production in the countries most affected by the present drought has been falling an average of 2 percent per year since 1970. According to an FAO analysis, per capita production in 1988 will be the same as in the drought year of 1984, even if 1988 has normal rainfall. 25X1

- Food production in areas subjected to warfare, guerrilla activity, or banditry tends to drop markedly. In such countries as Uganda, Angola, and Chad, farmers migrate to secure areas, and armies and bandits often steal or destroy the crops. Spoilage increases because marketing is difficult. [redacted] 25X1

While drought and warfare have an immediate impact, the counterproductive policies practiced by most African governments are principally responsible for the long-term decline in food production, according to development experts. To avoid conditions that might lead to political unrest in the cities—as well as to maintain the living standard of officials—governments try to keep food prices low, according to academic sources. Overvalued currencies often make 25X1

Changes in Per Capita Food Production in Sub-Saharan Africa



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imported food cheaper than local produce. The low price of food encourages greater consumption, while the low prices paid to farmers discourage domestic production. Falling rural income has been cited by academic experts as a major reason that Africa has the highest increase in the rate of urbanization in the world. The migration of young farmers to African cities is contributing to the decline in food production and at the same time increasing the demand for food.

Farmers face other aggravations that stem from the government-run corporations that often handle marketing and distribution of foodstuffs, agricultural materials, farm equipment, and extension services. The performance of these organizations has been marked by widespread mismanagement, shortages of technical and administrative expertise, insufficient financing, and corruption, according to academic studies.

Chronic Balance-of-Payments Problems

African countries are chronically short of foreign exchange with which to purchase imports, service debts, and pay for capital projects. Their economies are highly dependent on imports for both the raw materials and capital equipment needed to supply industries as well as basic necessities, including an increasing amount of food. Depressed prices for tropical agricultural products and most African mineral resources have reduced Africa's earnings at a time when its food import needs and debt service obligations are growing. Food imports and debt service payments consumed over 40 percent of foreign exchange earnings in 1984, and oil-importing countries spent about another 25 percent of their hard currency earnings on oil purchases, according to IMF and World Bank data. We believe that many countries will have recurrent balance-of-payments crises over the next several years because management of external accounts is generally poor and subject to political interference.

Because most African countries depend on the export of only one or two commodities for foreign exchange earnings, they are particularly vulnerable when demand for their exports is low. World Bank data show, for example, that on average the three principal exports of individual countries account for almost 80 percent of total exports from the region and that the share has been rising since 1961. When earnings drop, governments must either cut imports, accumulate payment arrears, or use cash reserves, which are usually meager. The reduction in imports deprives domestic production of vitally needed materials, and jobs are lost. Furthermore, we believe that if export earnings rise, political pressures would dictate that 25X1
the flow of imports resume its previous volume. 25X1

African countries have made very little progress either in restructuring industry to make use of local resources or in developing new exports. The contribution of manufacturing to GDP is declining in most countries, according to national accounts data. Trade surpluses occur in some countries, but they usually reflect contractions in imports, not significant expansion of exports. Consequently, trade surpluses often 25X1
signal ill health in the African context. We believe that because African trade surpluses often are built by cutting imports of vital resources for the transport and manufacturing sectors, the short-term benefits of easing the foreign exchange shortage are soon replaced by further economic decay, as is occurring in such countries as Nigeria, Zaire, and Ghana, 25X1
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Declining Investment

Faced with the need to reduce expenditures, many governments, according to national statistics, have chosen to cut spending for capital projects rather than in the more politically sensitive areas of defense and social services. As a result, Africa's productive capacity is being expanded more slowly than elsewhere in the developing world and the existing capacity of some countries is deteriorating, according to IMF data. Shortages of spare parts and reduced funds for maintenance will continue to damage the region's transport and productive facilities, actually reversing the development process in some countries. As a 25X1
result, many countries may not be able to take advantage of future improvements in the world market by producing more. 25X1

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With few exceptions, most notably the oil-producing countries of West and Central Afria, new foreign investment in African countries is declining and domestic investment has been discouraged by the poor rate of return that is common in the region. African economies are not building the foundation for future growth and their ability to compete in a rapidly changing world will be severely limited. [redacted]

Outlook

The outlook for Africa's economies is bleak for the remainder of the decade largely because of a number of longstanding structural problems and predominantly negative economic and social trends that span the last 10 years. These chronic shortcomings have been made worse in recent years by external events, including drought and world recession. [redacted]

Africa is becoming progressively poorer. We believe that further deterioration is likely because of the failure to resolve such basic weaknesses as inadequate human and physical resources, declining per capita food production, structural balance-of-payments problems, and sociopolitical instability. Most African governments will avoid unpopular policy reforms that are considered by development authorities to be necessary for sustained growth, because such measures would threaten their survival. [redacted]

The stimulus for growth will not come from outside funding unless extraordinary programs are undertaken by official lenders. Official sources have compensated for the drop in commercial lending during 1980-82, and the gross amount of capital inflow into Africa probably will remain relatively steady for several years. Beginning in 1985, however, a heavy repayment schedule will reduce the net amount of funds available to the region from the 1980-82 average of $11 billion to only $5 billion. Some hard-pressed countries (Senegal and Liberia, for example) already are using these funds, including development aid, to meet the ordinary expenses of running the government and for debt payments, rather than investing in capital projects that could contribute to future growth, according to US embassy reporting. [redacted]

Acute shortages of foreign exchange will be common during 1985-87, despite trade surpluses in many countries, because of the reduced level of net capital inflow. We believe governments will have to cut imports vital to industries and reduce development spending to conserve foreign exchange for basic necessities and debt service obligations. Even so, some countries such as Liberia, Zaire, and Somalia still will be unable to cover their needs, and emergency loans and debt reschedulings will continue to be required. 25X1
Furthermore, we believe that these drastic reductions in imports will starve production and lead to further decay in physical plant and facilities, causing deep and long-term injury to economies already in a precarious state. [redacted] 25X1

In our view, the longer term economic outlook also is dismal. The potential exists for a long-term fall in the average real prices of some of Africa's primary export commodities because of technological advance. For example, the development of new production techniques allows for the use of cheaper raw materials or synthetics for rubber and a number of metals. Fiber optics could largely eliminate the use of copper wire in telecommunications, which would have a severe impact on Africa's two largest copper producers, Zaire and Zambia. Africa's weakened condition also will limit its ability to capitalize on such potentially advantageous conditions as improved markets for its products. Deterioration of existing facilities will erode Africa's capacity to increase production and move the greater volume through the transport system. Favorable world conditions probably would help Africa only minimally, in our judgment. Should the global environment turn negative, it would have a deep and long-lasting impact because of the region's lack of economic, political, and social resilience. Furthermore, we believe that, as other regions move rapidly to acquire increasingly advanced technology, the gap between Africa, already the world's poorest region, and the rest of the world will continue to grow. [redacted] 25X1

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Implications for the United States

Africa's deteriorating economic situation will create greater demand on the United States and its industrial country allies for food assistance, concessional

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loans, and aid programs. Because of the decline in commercial loans and private investment, we believe that the multilateral institutions will also play an ever larger role. The United States and other major supporters of these institutions will come under growing pressure for greater contributions. [redacted] 25X1

The United States, as the world's largest food producer, will attract most attention from Africa's leaders. Declining per capita food production in Africa provides a growing market for US agricultural products, but Africa's cash-short economies will ask that sales be on concessional terms. The demonstrated inability of many governments to plan for periods of severe shortage will also prompt requests for more emergency food aid. [redacted] 25X1

Appendix A

Outlook for West and Central Africa [2]

Per capita GDP in West and Central Africa probably will continue to decline for the remainder of the decade. Drought and recovery from drought, foreign exchange shortages, and austerity or stabilization programs, in our judgment, will constrain economic growth for the next several years. While the overall outlook for the region is pessimistic, some countries, such as Congo, Cameroon, and Togo, through a combination of stronger exports, increased food production, and manageable debt service, are likely to sustain their relatively positive performances for the next few years; the decline also may have bottomed out for others, and they could begin a period of slow but steady growth over the next few years:

- **Ghana,** with black Africa's second-largest economy, according to World Bank data, has received economic shock treatments that seem to have checked its long downward spiral. Five devaluations since April 1983, easing of price controls, budgetary discipline, and the government's efforts to rehabilitate the key economic sectors produced a second consecutive year of growth in 1984. Nevertheless, the economy remains depressed—real GDP is still below the 1973 peak—and further progress depends on the capacity of the Rawlings government, under considerable political pressure because of the dismal state of the economy, to survive.

- Three Central African oil producers—**Congo, Cameroon, and Gabon**—are likely to achieve modest growth over the next several years despite the weak oil market, but only if they can adhere to plans to limit imports, contain government spending, and avoid excessive external borrowing. The longer term outlook is unfavorable, however, because industry experts expect oil production, still the major source of foreign exchange for all three countries, to decline in the early 1990s.

[2] Benin, Burkina, Burundi, Cameroon, Cape Verde, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea, Guinea Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Rwanda, Sao Tome, Senegal, Sierra Leone, Togo, and Zaire.

Foreign Exchange Problems

The region's foreign exchange shortage is not likely to ease measurably within the near term. Although the prices for some West and Central African commodities, such as coffee, cocoa, and palm kernels, strengthened somewhat during 1984, we judge that most countries will face a continuing drop in foreign exchange earnings from their peak in 1980 that lasts at least several years:

- Even with improved prices for the Ivory Coast's principal exports—coffee and cocoa—we calculate that Abidjan will lack sufficient foreign exchange to service external debt and to finance imports at levels that would permit 5- to 6-percent annual economic growth to resume. Ivory Coast, black Africa's second-largest debtor (after Nigeria), probably will have to reschedule about $2 billion during 1985. The restrictions on vital imports are endangering the maintenance of the region's best infrastructure and may cause a fourth year of economic decline.

- **Nigeria,** black Africa's largest economy, must continue to import huge quantities of food, because per capita food production in 1983 was 8 percent below the 1969-71 average. About 25 percent of foreign exchange earnings—already depressed because of lower oil revenues—will be spent for food and at least 45 percent must go for debt service. We believe that Nigeria will continue to resist a sizable devaluation as long as possible and that will preclude IMF assistance. 25X1

Policy Reform

A number of West and Central African countries have agreed to various economic reforms designed to reduce the role of government and to encourage the operation of free market forces. Between 1979 and 1984, the IMF made loan arrangements that included 25X1
requirements for some policy reforms with the **Central**

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African Republic, Congo, Equatorial Guinea, Gabon, The Gambia, Ghana, Guinea, Ivory Coast, Liberia, Mali, Niger, Senegal, Sierra Leone, Togo, and Zaire. Although these governments generally have avoided implementing the most far-reaching reforms, a few—like Ghana—are becoming so desperate that they are willing to submit to IMF requirements to obtain assistance:

- The Government of **Zaire** has been able to sustain reform in part because the standard of living is so low that the adverse short term impact is minimal. However, the longer term favorable effects on the economy will be reduced by corruption at high levels and by President Mobutu's personal control of key economic elements. Zaire has rescheduled its debts every year but one since 1976, and, according to the IMF, will have to reschedule every year until at least the end of the decade.

- **Senegal** has had four successive IMF stabilization programs, all largely ineffective in reversing economic decline in part because of the failure to comply with measures requiring reduced public spending. As West Africa's largest recipient of foreign aid, the government has been able to supplement its budget to support over 80 parastatals, in addition to providing subsidies for many basic items. We believe that the 1985 IMF program, which is involving all major donors in consultation, is likely to be successful in encouraging some gradual changes. In our view, however, social pressures that could seriously threaten President Diouf's survival will prevent him from moving decisively toward reform in such sensitive areas as subsidies and public employment. 25X1

Agriculture
Food will continue to be West Africa's principal concern for years. In our judgment, production shortfalls, food emergencies, and chronic shortages are likely to continue their pattern of the past:

- Average per capita food production during 1980-82 declined from the 1969-71 average everywhere but in the **Central African Republic, Cameroon, and Ivory Coast.** Only Ivory Coast, however, has sustained growth in per capita production. Ghana, on the other hand, is producing less than 75 percent of its 1969-71 level.

- Countries of the Sahel (**Chad, Niger, Mali, Burkina, Senegal, The Gambia, and Cape Verde**), affected by periodic drought and without substantial resources, probably will remain dependent on massive food aid for years. Despite efforts by the World Bank and others to overhaul Sahelian agriculture and some government efforts to encourage food production in **Senegal** and **Mali,** little improvement is likely soon, in our judgment, because of the extensive environmental problems. 25X1

Appendix B

East Africa: Troubled Economies [3]

The East African regional economy will expand, in our judgment, only sluggishly over the next few years, and real per capita incomes probably will continue to stagnate or fall. Economic growth will be limited by a combination of factors that apply, in varying measure, to each of the countries: the paucity of human, physical, and capital resources; the burden of corruption, political cronyism, and government efforts to control the economy; continuing foreign exchange shortages; the effects of drought; and disruptions imposed by scattered insurgencies. [redacted]

Economic Policies

Government policies over the next few years will significantly influence the economic environment—and, as a result, production and investment decisions. Although some countries are moving toward liberalization, we believe most governments will maintain strong control over economic activity:

- We see little evidence that the ideologically driven Mengistu regime in **Ethiopia** will substantially alter its policies, even in the wake of the worldwide attention drawn to his mismanagement of Ethiopia's food production.

- Although the **Tanzanian** Government has implemented some liberalization measures, such as devaluation and higher producer prices for food and export crops, we doubt that the wide-ranging structural reforms to spur sustained economic recovery will be implemented—especially since President Nyerere, a committed socialist, is likely to maintain a strong voice in government even if he retires as planned in late 1985.

- Mogadishu's IMF-backed liberalization program has brightened **Somalia's** economic prospects, but the short-term costs—which include hoarding and the depression of trade—could be steep. Moreover, the program limits President Siad's ability to dispense patronage, an important element of his power base. If the side effects prove too painful politically or if donors do not quickly respond with stepped-up aid flows, we believe Siad will come under severe pressure to back away from the agreement.

- Economic policies in **Kenya** have been relatively liberal compared to those in the rest of East Africa. Nonetheless, pressure for more liberalization will be opposed by the government because of a strong resentment of foreign pressure, key policymakers' distrust of technocratic Western economic solutions, 25X1
and a personal commercial stake by high-level 25X1
officials in the present system. [redacted]

Foreign Exchange Shortages

We do not believe the region's foreign exchange crunch will ease much over the next few years. Foreign exchange reserves are nearly depleted in most countries; US Embassy reporting from **Ethiopia,** for example, indicates that holdings at the end of 1984 were at the lowest level in more than 30 years. Export earnings will be limited by high-cost, low-quality production, which makes the region's goods uncompetitive, and expected declines in coffee, tea, and cotton prices from current levels. Foreign aid flows will be increasingly affected by donor budget constraints:

- Even if **Somalia's** IMF program is approved, the resulting inflow of funds will only help ease—not end—Mogadishu's critical cash shortages. The government still must reschedule quickly growing debt service obligations to meet IMF targets, and, we believe, will be hard pressed to find alternative markets for its livestock in the face of a continuing Saudi ban on Somali cattle.[4]

[4] As a result of Saudi Arabia's mid-1983 ban on Somali cattle imports, Mogadishu's export earnings have fallen by more than half, to only $60 million. Little progress has been made toward lifting the embargo [redacted] 25X1

[3] Ethiopia, Somalia, Djibouti, Kenya, Uganda, Tanzania, and Malawi [redacted] 25X1

- A solid foreign reserve level, current high world prices for coffee and tea, and a bright tourism picture should provide some insulation for **Kenya**, but Nairobi still could encounter financial problems later this year as the bills for its commercial food purchases become due. Kenya soon will be looking for additional aid. Foreign exchange pressures could continue in 1986 if coffee output does not recover from the drought, and if stock drawdowns to meet the 1985 International Coffee Organization quota leave insufficient supplies for next year's exports.

Drought

Drought in key countries will strain fragile agricultural and agriculturally based industrial sectors and transportation networks at least through 1985. Moreover, financial pressures will intensify as probable export crop losses lower hard currency revenues, and as government expenditures on relief efforts and food imports grow:

- The recent harvest in **Ethiopia,** worst hit by drought, may be some 25 percent below normal, and food stocks are now exhausted. Famine, therefore, almost certainly will continue spreading to other parts of the country this year. Moreover, refugee movements have drained labor from agricultural areas and have made hundreds of thousands of people dependent upon the regime for food, clothing, and shelter.

- Even though **Kenya's** November-December short rains—which water about 20 percent of annual production—generally were on time and adequate, it is too early to conclude that the drought is over. To assure adequate food supplies and help rebuild national stocks, therefore, **Nairobi** will continue its food import program this year. 25X1

Insurgencies

Internal conflict and border disputes will drain the economies of several East African countries. In **Uganda,** for example, a growing insurgency between the Obote regime and antigovernment dissidents threatens to derail recent economic progress. **Ethiopia** continues to battle a longstanding and debilitating insurgency in the north, and both Ethiopia and **Somalia** maintain a substantial military presence along their joint border, in part to counter cross-border insurgent operations sponsored by each government. These conflicts will directly affect economic activity by causing high government spending on defense and refugees, damage to infrastructure, lost agricultural and industrial production, and disruptions to transport and distribution networks. Indirectly, the economies will suffer from reduced business confidence, capital flight, government preoccupation with military matters, and the pursuit of economic policies designed to buy political support. 25X1 25X1

Appendix C

Economic Prospects for Southern Africa [5]

Real economic growth for most of southern Africa's developing nations in 1985 is unlikely, in our judgment, to exceed the region's 2-percent average annual growth rate between 1978 and 1983. Economic performance probably will be limited by low world prices for the region's commodity exports, recession in South Africa, the continuing need for food imports, and insurgencies that have disrupted economic activity in Angola and Mozambique. [redacted]

Commodity Prices and Exports

Most of the developing economies of southern Africa depend on a narrow base of commodity exports for the bulk of their foreign currency earnings. World prices of these commodities have fallen in real terms since 1980 and have cut export earnings for Angola, Namibia, Swaziland, and Zambia. Most private economic forecasters foresee no significant recovery in the world price of oil, uranium, diamonds, copper, or sugar during 1985. Among the southern African countries heavily dependent on one or two export commodities, only Botswana has escaped the impact of stagnant prices through increases in the volume of its exports, principally diamonds. [redacted]

Economic Relations With South Africa

Business initiatives by South African companies and the attraction of job and marketing opportunities have created a network of economic ties between South Africa and most of its neighbors. As a result, the entire region has suffered from South Africa's severe economic recession, only a marginal growth in its demand for migrant labor and imported commodities, and reduced private South African investment in the region:

- **Zimbabwe**—which has the broadest economic base of southern Africa's developing countries—is also the most sensitive to swings in South African consumer spending. Some 70 percent of its manufactured exports are sold in South Africa. We believe that South African economic growth will not exceed 2 or 3 percent in 1985, thus slowing Zimbabwe's economic recovery. [redacted]

Drought and Food Imports

Drought in southern Africa has made the entire region dependent on food imports. Even in years of average rainfall, only South Africa and Zimbabwe are normally net food exporters. South Africa has been the dominant grain producer, with Zimbabwe a distant second. Until 1983, Pretoria had large surpluses available for export, but drought has forced cancellation of grain sales to traditional customers such as 25X1
Zambia. [redacted] 25X1

Preliminary data on rainfall for the critical months of December and January suggest that the 1984-85 growing season will be marred by a fourth consecutive year of drought in much of southern Africa. Significant grain imports will continue through 1985 for most of these developing countries, but by mid-1985 serious food shortages probably will be limited to those areas plagued by insurgency or extreme poverty.
[redacted] 25X1

Internal Policies and Conflicts

Insurgencies in Mozambique and Angola have accelerated economic decline originally caused by inappro- 25X1
priate, socialist-oriented policies and an exodus of skilled Portuguese workers after independence from Portugal in 1975. The rebels have pushed farmers from productive lands and disrupted transportation:

- For **Mozambique,** we estimate that the modern economy—including exports—has shrunk by nearly 50 percent since independence. Antigovernment rebels have disrupted agricultural production, damaged the country's economic infrastructure, and forced Maputo to increase defense spending. We believe that, unless the insurgency is brought under control, Mozambique's problems will only increase as the country continues its economic decline.

- In **Angola,** the insurgency has interrupted all economic activity except for petroleum production—Angola's leading industry—which so far has been protected from insurgent attacks. The level of the

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[5] Angola, Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia, and Zimbabwe. [redacted]

insurgent attacks primarily will determine whether petroleum export earnings go to rebuild Angola's war-torn economy or to buy more military hardware and personnel support from the Soviet Bloc and Cuba. [redacted] 25X1

Even in countries where internal conflicts have not reached the level of guerrilla warfare, sociopolitical realities may constrain seriously government options for enhancing economic performance:

- To resume the rapid growth it enjoyed after independence in 1980 and improve strained relations with the IMF, **Zimbabwe** must resolve its foreign payments problems and reduce government expenditures. Harare's last standby agreement with the IMF collapsed when it could not meet the Fund's targets for limiting deficit spending. Imports of military equipment used to control unrest rooted in ethnic differences, however, have consumed increasing amounts of scarce foreign exchange, [redacted] 25X1
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